

E. LEON JACOBS, JR.,  
CHAIRMAN

**STATE OF FLORIDA**

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# Public Service Commission

October 4, 2001

**VIA ELECTRONIC FILING**

Ms. Magalie R. Salas  
Secretary  
Federal Communications Commission  
445 Twelfth Street SW  
Washington, DC 20554

Re: *Ex Parte* Letter in Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review of Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers

Dear Ms. Salas:

As required by your rule 1.1206, we are hereby notifying you that today, the attached letter on the above-listed docket was sent to Chairman Michael K. Powell.

Sincerely,

/ s /

Cynthia B. Miller, Esquire  
Bureau of Intergovernmental Liaison

CBM:tf

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# Public Service Commission

October 4, 2001

**VIA FACSIMILE**

The Honorable Michael Powell  
Chairman  
Federal Communications Commission  
Portals II, TW-A325  
445 Twelfth Street, SW  
Washington, D.C. 20554

Re: *Ex Parte* Letter in Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review of Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers

Dear Chairman Powell:

Previously, the Florida Public Service Commission filed comments in this proceeding. This letter is to emphasize certain aspects of those comments. While I commend the FCC for its continued efforts to streamline accounting and reporting requirements in line with the changing telecommunications environment, I am concerned with eliminating some existing accounting rules and not providing accounting for new technologies that are essential for monitoring and implementing the competitive mandates and safeguards of the 1996 Telecommunications Act (1996 Act).

The FCC's accounting rules provide essential information to Florida in evaluating possible cross-subsidization and promoting competition. The Uniform System of Accounts (USOA) serves as the basis for accounting data that are used to protect ratepayers from improper cross-subsidies, to determine interstate/intrastate cost and revenue splits, to determine the cost of universal service supported services, and serve as the basis of many of the inputs to the cost proxy models used in determining universal service cost levels and appropriate Unbundled Network Element (UNE) prices.

*Proposed New Accounts:*

The new accounts proposed by the states update the FCC's accounting system in order to reflect technology used today and the requirements of the 1996 Act (e.g., universal service support, UNE pricing, number portability). Accounts recognizing new technologies are critical in helping the FPSC understand the nature of the ILEC's investment in determining UNE prices. Further, these accounts will allow the monitoring of issues such as technology deployment, collocation, and interconnection cooperation which is both a state and a federal benefit in implementing the 1996 Act.

The new technology accounts (circuit and packet digital switching and optical switching) represent the latest advances in central office technology. As networks move toward Internet protocol (IP), these technologies will likely become more predominant. The difference in their functions, designs, and costs necessitate that they be placed in new accounts, and not combined with existing and/or older technologies. Plant accounts need to recognize technologies being deployed by the industry to avoid cross subsidies (for non regulated services provided via packet technologies) and to establish appropriate prices for UNEs as well as universal service cost levels.

Cost characteristics of the legacy circuit switching equipment are different from the packet switching equipment. A migration from circuit to packet technology may result in shifts from non-traffic sensitive costs to traffic sensitive costs and effectively move costs from the loop to transport. Specifically, as the network configuration changes from circuit to packet switching, the switching function will effectively migrate towards the end user to where the Digital Loop Carrier was once located.

The proposed new interconnection accounts (revenue and expense) are important both in assessing the level of local competition as well as assessing the appropriate prices for interconnection arrangements (e.g., UNEs and resale). These accounts will help the FPSC better understand the degree of local competition and enable us to take steps to address issues that may be relevant to the state of local competition in Florida. Moreover, it should provide useful information for analysis of the FCC's intercarrier compensation NPRM.

Given the dramatic increase in the universal service programs, on both federal and state levels, establishment of separate revenue and expense accounts for Universal Service are relevant. These accounts are needed to evaluate the carriers' USF billing rates and to ensure that these rates reflect the needs of the USF programs.

To the extent the above information is captured in other FCC reports or formats, only the USOA represents audited data, making it a much more reliable source than other forms. Also, alternative forms are usually proprietary, making it more difficult to obtain access to the data ILECs in another state for benchmarking purposes. For example, in discussions with your staff, it appears that data on ILEC interconnection activity is available in the FCC Form 477 (local competition

data). However, it is my understanding that Form 477 does not capture interconnection revenue or expense data, is not audited, and is not comprehensive on all interconnection activities. While the data reported on Form 477 may be useful in assessing the level of competition, the accounting data is equally essential to understand the nature of the competition (i.e., is it healthy, is there resale activity and at what level).

Without a uniform accounting system, there is no assurance that data these proposed new accounts would capture will be maintained by the ILECs. Thus, it will be much more onerous to obtain needed data. Moreover, data obtained from the ILECs in such a fashion would lack comparability between states. Certainly, individual states are responsible for ensuring they receive the information needed to fulfill their regulatory mandates. However, one of the major advantages in the USOA is that it is uniform across all states. Because the Florida ILECs are no longer rate base regulated, they are not required to file financial reports or basic information with the FPSC. As a consequence, the only publicly available source of accounting data and information is that required by the USOA and reported in ARMIS.

*Other Issues:*

Regarding ARMIS reporting, this information represents our only publicly available source of accounting data and information utilized in establishing UNE prices, interconnection rates, universal service support, and assessing service quality trends and network functionality. Certainly the separation on this ARMIS form between copper and fiber technologies should not be eliminated. Not only do these technologies have different depreciation lives and rates, but having the investments separated is important in the forward looking pricing models. To the extent the FCC eliminates this separation in ARMIS 43-03, our use of this data would be severely inhibited. Moreover, this action will make it more onerous for the FPSC to analyze and evaluate ILEC cost studies prepared for determining. Additionally, UNE prices and intrastate universal service costs are not determined on an operating company level. For the data to be helpful and meaningful to the FPSC, the separation between copper and fiber technologies must be maintained.

With respect to eliminating continuing property records (CPRs) requirements, these records are necessary to ensure that the largest and most important accounts, the network plant accounts, accurately reflect those assets actually in service. Also, CPRs provide data for jurisdictional separations and cost allocations studies. Moreover, these records provide the basic information used as the beginning point in forward-looking pricing models. To the extent that the proxy model employed utilizes historical relationships based on erroneous data to determine forward-looking plant specific expense and other expense categories, interstate universal service support for nonrural ILECs may be affected. In establishing any state Universal Service Fund, use of erroneous embedded data similarly may result in misstatements of funding requirements, if estimates of expense levels attributable to universal service are based on faulty historical cost relationships. In

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either event, the reliance on historical costs that are misstated could mean the calculations used to establish a Florida USF may be inaccurate. For these reasons, CPR requirements should not be eliminated.

The FCC's forecast use rule is based on the cost causative principle and is critical for allocating costs fairly because forecasted use provides the best measure of the new services' intended use. In CC Docket 86-111, the FCC recognized that the use of current relative use factors to allocate plant investment costs are unsound from an economic perspective and will systematically over-allocate these asset costs to regulated activities. The FCC further found that this would result in regulated activities subsidizing nonregulated activities which may have a general anti-competitive effect. As ILECs make investments aimed at increasing their revenues in new nonregulated activities, it is important to use forecasts to allocate the appropriate use of the new assets to the ILECs' nonregulated activities. Otherwise, the ILECs could allocate almost all of the new investments to the regulated operations for many years even though the investments are primarily made to develop their newer, nonregulated activities. For these reasons, the FCC's current forecast rule should not be eliminated.

Thank you for consideration of this material. Please do not hesitate to contact me should you have any questions.

Sincerely,

/ S /

E. Leon Jacobs, Jr.  
Chairman

CBM:tf

cc: The Honorable Gloria Tristani  
The Honorable Kathleen Q. Abernathy  
The Honorable Michael J. Copps  
The Honorable Kevin J. Martin